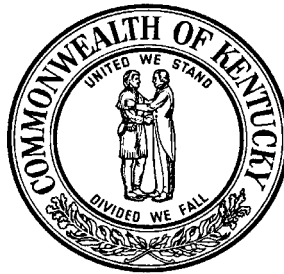


**LETTER FROM THE AUDITOR OF PUBLIC ACCOUNTS  
CABINET FOR ECONOMIC DEVELOPMENT**

**In Reference to the Statewide Single Audit  
of the Commonwealth of Kentucky**

**For the Year Ended  
June 30, 2005**



**CRIT LUALLEN  
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## **TABLE OF CONTENTS**

MANAGEMENT LETTER.....	1
LIST OF ABBREVIATIONS/ACRONYMS.....	3
FINANCIAL STATEMENT FINDINGS .....	4
<i>Other Matters Relating to Internal Controls and/or Instances of Noncompliance</i> .....	4
FINDING 05-CED-1: The Cabinet for Economic Development Should Implement Controls To Ensure Compliance With FAP 111-58-00 Regarding ProCard Transactions .....	4





CRIT LUALLEN  
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky  
Honorable Ernie Fletcher, Governor  
Marvin E. Strong, Jr., Secretary  
Cabinet for Economic Development

**MANAGEMENT LETTER**

Pursuant to the agreement dated June 21, 2005 between our office and the Cabinet for Economic Development (CED) regarding management and oversight of the Kentucky Economic Development Finance Authority (KEDFA) and the Bluegrass State Skills Corporation (BSSC) audits for the fiscal year ended June 30, 2005, we are providing this letter to comply with KRS 43.090.

CED had previously engaged Moore Stephens Potter, LLP to perform the audits of BSSC and KEDFA for the year ended June 30, 2005. We then entered into an agreement with CED to perform additional procedures for the year ended June 30, 2005, for KEDFA and BSSC and also oversee both audits.

As part of the additional procedures outlines, our office required Moore Stephens Potter, LLP to include a test of payroll procedures for employees of KEDFA and BSSC into their audit work. Based upon the results of their testing and report of findings, this area did not result in any weaknesses.

Also, per the additional procedures outlined, our office performed a test of CED ProCard transactions. This testing was a necessary follow-up to a prior year report generated by our IT Division related to weaknesses and areas of noncompliance with ProCard administration statewide. Our office at that time found it necessary to review statewide ProCard purchases for compliance with Finance and Administration Policy FAP 111-58-00. A total of 40 ProCard transactions performed by CED were reviewed and 12 of those transactions resulted in areas of noncompliance. Out of a total dollar amount of \$57,773.53, the APA found \$1,178.77 of that to be noncompliant with the FAP. A formal other matter finding has been prepared as a result of this noncompliance and presented to the agency for their response.



To the People of Kentucky  
Honorable Ernie Fletcher, Governor  
Marvin E. Strong, Jr., Secretary  
Cabinet for Economic Development

Included with this letter is the other matter finding as communicated to management in accordance with auditing standards generally accepted in the United States of American and *Government Auditing Standards*.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen", with a long horizontal flourish extending to the right.

Crit Luallen  
Auditor of Public Accounts

Fieldwork completed -  
March 9, 2006

**LIST OF ABBREVIATIONS/ACRONYMS**

BSSC	Bluegrass State Skills Corporation
CED	Cabinet for Economic Development
FAP	Finance and Administration Policy
FY	Fiscal Year
IT	Information Technology
KEDFA	Kentucky Economic Development Finance Authority
KRS	Kentucky Revised Statutes
LLP	Limited Liability Partnership
SSWAK	Statewide Single Audit of Kentucky

## FINANCIAL STATEMENT FINDINGS

### *Other Matters Relating to Internal Controls and/or Instances of Noncompliance*

#### **FINDING 05-CED-1: The Cabinet for Economic Development Should Implement Controls To Ensure Compliance With FAP 111-58-00 Regarding ProCard Transactions**

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We randomly selected 40 ProCard expenditures from within the Economic Development Cabinet and examined these purchases for compliance with FAP 11-58-00 *Procurement Card Program*. The total dollar amount spent for the entire fiscal year was \$57,773.53. The auditor found that of the items tested, \$1,178.77 was noncompliant. While reviewing these purchases, we noted several areas of noncompliance, which are detailed below:

1. Of the forty (40) ProCard purchases it was noted that one purchase was made by someone other than the cardholder. A purchase was initially made by the cardholder but a change in the purchase was made by someone other than the cardholder. (1 of 40, 3%)
2. One (1) purchase was made by someone that had not signed and accepted the terms and conditions of the Commonwealth of Kentucky Procurement Card Agreement. (1 of 40, 3%)
3. Twelve (12) purchases were made without a cardholder signature and we were unable to determine that the purchase was not made by someone other than the cardholder. (12 of 40, 30%)
4. Twelve (12) of the forty (40) purchases did not show any indication that shipment had been inspected by the cardholder. ( 12 of 40, 30%)
5. One (1) purchase was not compliant with FAP 11-28-00 and 120-21-00 regarding the agency maintaining supporting documentation in accordance with the General Schedule for State Agencies. (1 of 40, 3%)
6. Twelve (12) purchases did not have a signature on the receipt or source document. (12 of 40, 30%)
7. One (1) purchase was made without the cardholder or associated approving personnel receiving information related to the purchase. (1 of 40, 3%)

Without proper inspection of items received, the cabinet cannot ensure that all items purchased were received. This could result in items being purchased that are never received by the agency. Also, without proper cardholder signatures on receipts/invoices, the cabinet is unable to ensure that the cardholder made the purchase. This could result in purchases not made by the cardholder and not detected by the cabinet.

According to FAP 111-58-00:

1. Section 2 of FAP 111-58-00 states, "Each frequent user shall be issued an individual card."
2. Section 2 of FAP 111-58-00 states, "An employee issued an individual card shall sign and accept the terms and conditions of the Commonwealth of Kentucky Procurement Card Cardholder Agreement provided by the Finance and Administration Cabinet."



## **FINANCIAL STATEMENT FINDINGS**

### ***Other Matters Relating to Internal Controls and/or Instances of Noncompliance***

#### **FINDING 05-CED-1: The Cabinet for Economic Development Should Implement Controls To Ensure Compliance With FAP 111-58-00 Regarding ProCard Transactions (Continued)**

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3. Section 2 of FAP 111-58-00 states, “An individual card embossed with an employee’s name shall be used exclusively by that employee and shall not be shared or loaned to other employees.”
4. Section 11 of FAP 111-58-00 states, “A cardholder shall properly inspect all shipments.”
5. Section 12 of FAP 111-58-00 states, “An agency shall maintain the documentation for all transactions in accordance with the General Schedule for State Agencies, FAP 111-28-00 and FAP 120-21-00. “
6. Section 12 of FAP 111-58-00 states, “Receipts for source documentation shall include the vendor’s name, date of purchase, description of each item purchased, price of each item purchased, total cost, cardholder name or card number, and signature of cardholder or designee. “
7. Section 16 of FAP 111-58-00 states, “An agency shall receive and distribute information on all purchases to all cardholders and any associated approving personnel.”

#### **Recommendation**

Economic Development Cabinet should take the following steps to ensure compliance with FAP requirements:

- all purchases should be made by an authorized cardholder
- all purchases should be inspected for accuracy and any returns should be coordinated by the cardholder
- all transactions should be supported with adequate documentation in accordance with FAP 120-21-00 and FAP 120-21-00 that includes authorized cardholder signature on invoice/receipt.

#### **Management’s Response and Corrective Action Plan**

*The Cabinet for Economic Development conducts state business from four separate (4) locations, two (2) in Frankfort and two (2) in regional offices across the Commonwealth. For purposes of close control on ProCard usage, the Cabinet has only one (1) authorized ProCard administrator and two (2) authorized ProCard purchasers, both working in the Administrative Services section in one of the Frankfort offices. When someone from one of the other Cabinet offices requests an item that can be most expeditiously purchased using the ProCard, the purchase is made from the Frankfort office and the item is often shipped directly by the vendor to the other Frankfort office or to one of the regional offices. The receiver of the purchased item is instructed to inspect the delivered materials, verify that the*

**FINANCIAL STATEMENT FINDINGS*****Other Matters Relating to Internal Controls and/or Instances of Noncompliance*****FINDING 05-CED-1: The Cabinet for Economic Development Should Implement Controls To Ensure Compliance With FAP 111-58-00 Regarding ProCard Transactions (Continued)**

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**Management's Response and Corrective Action Plan (Continued)**

*materials received exactly match the materials ordered, and sign the delivery document. The delivery document is then to be forwarded to the Accounting Office in Frankfort for processing and payment.*

*Of the total ProCard expenditures of \$57,773.53 over the fiscal year, the auditor found twelve instances of weakness and/or non-compliance totaling \$1,178.77. These twelve purchases were all of similar nature. In each of the audit exceptions, the receiver of the materials ordered and delivered failed to sign the delivery document to verify that the materials delivered exactly and completely matched the materials ordered.*

*On one occasion, the recipient of the delivery of a small office supply item, working at one of the regional offices, discovered the item received was not the item ordered. Rather than call the ProCard administrator, the individual contacted the vendor directly to report the error. The individual felt this action would save time, trouble and not add an additional task to the workload of the ProCard administrator. The vendor immediately sent the correct materials. However, the recipient decided to retain the initially sent incorrect materials, thereby incurring an additional purchase that was beyond the authority of the recipient and was not placed by the ProCard administrator.*

*To insure the above audit exceptions do not reoccur, we have emphasized to our staff members the importance of signing the delivery documents for materials received and forwarding these documents to the cardholder who made the original purchase. We have further emphasized to our staff that all errors on ProCard orders are to be reported immediately to the proper cardholder for correction and not to be handled directly by anyone other than the cardholder.*

*We appreciate the efforts of the Office of the Auditor of Public Accounts to point out the weaknesses in our internal control system and allow us the opportunity to strengthen our degree of stewardship of taxpayer funds.*

